



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2766  
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY  
AUDITOR-CONTROLLER

January 21, 2004

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY FLOOD  
CONTROL DISTRICT FOR THE YEAR ENDED JUNE 30, 2003**

Pursuant to Government Code Section 26909, we have audited the financial statements of the Los Angeles County Flood Control District (District) for the year ended June 30, 2003. Our attached reports conclude that no material weaknesses involving the District's internal controls over financial reporting were noted, and the financial statements are presented fairly in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

PTM:DR:JS:JG  
Attachments

c: David E. Janssen, Chief Administrative Officer  
James A. Noyes, Director, Department of Public Works  
Violet Varona-Lukens, Executive Officer, Board of Supervisors  
Public Information Officer  
Audit Committee



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J. TYLER McCAULEY  
AUDITOR-CONTROLLER

December 29, 2003

The Honorable Board of Supervisors  
Los Angeles County Flood Control District  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

**Report on Compliance and on Internal Controls Over Financial Reporting**

Dear Supervisors:

We have audited the financial statements of the Los Angeles County Flood Control District (District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statement are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under Government Auditing Standards.

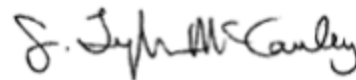
Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the District for the year ended June 30, 2003, we considered the internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of the Board of Supervisors and management of the District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. Tyler McCauley". The signature is fluid and cursive, with the first name "J." and last name "McCauley" clearly distinguishable.

J. Tyler McCauley  
Auditor-Controller

PTM:DR:JS:JG

c: David E. Janssen, Chief Administrative Officer  
James A. Noyes, Director, Department of Public Works  
Violet Varona-Lukens, Executive Officer, Board of Supervisors  
Public Information Officer  
Audit Committee Members

# LOS ANGELES COUNTY FLOOD CONTROL DISTRICT

## Financial Statements For the Year Ended June 30, 2003

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J. TYLER McCAULEY  
AUDITOR-CONTROLLER

December 29, 2003

**Independent Auditor's Report**

The Honorable Board of Supervisors  
Los Angeles County Flood Control District  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

Dear Supervisors:

We have audited the accompanying financial statements of the Los Angeles County Flood Control District (District) as of and for the year ended June 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

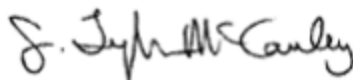
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

In accordance with Government Auditing Standards, we have also issued a report dated December 29, 2003 on our consideration of the District's internal control over financial

reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information identified in the accompanying table of contents as Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information identified in the table of contents as individual fund statements and schedules is presented for the purposes of additional analysis and are not required of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



J. Tyler McCauley, CPA  
Auditor-Controller

PTM:DR:JS:JG

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Los Angeles County Flood Control District (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the accompanying financial statements, notes and supplementary information.

The District is also a component of a larger governmental unit, the County of Los Angeles (County). We also encourage readers to use the Comprehensive Annual Financial Report of the County of Los Angeles to provide perspective on the government-wide statements and how the District is a component of those statements.

**FINANCIAL HIGHLIGHTS**

At the end of the current year, the net assets (total assets less total liabilities) of the District were positive \$93 million.

During the year, the District's net assets increased by \$50 million. The increase was a result of the District's governmental activities. The District has no business-type activities to report.

At the end of the current year, the District's General Fund reported a total fund balance of \$115 million. The amount of unreserved and undesignated fund balance was \$7 million.

The District's capital assets balance was \$121 million at year-end and increased by \$31 million during the year.

The District refunded the outstanding balance of the 1993 Capital Construction and Refunding Bonds during the year to take advantage of favorable interest rates, which resulted in a decrease in the District's total long-term debt.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts, Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information (RSI). The basic financial statements include the government-wide financial statements and fund financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities, with the difference representing net assets. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating.

The government-wide financial statements of the District report on one category, Governmental activities, as the District has no business-type activities, or discreetly presented component units that the District is financially accountable for.

*Governmental Activities* – All of the District's basic services are included here. Property taxes and benefit assessment finance almost all of the District's Flood Control activities.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's significant funds. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

The District has two kinds of funds:

*Governmental Funds* – All of the District's basic services are included in the Governmental funds, which focus on how resources flow in and out with the balances remaining at year-end that are available for spending. The governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we describe the relationship between governmental activities and governmental funds through reconciliation on pages 20 and 23 and in the notes to the basic financial statements.

*Fiduciary Funds* – These funds are used to report assets held in an agency capacity for others and cannot be used to support the District's activities. The Agency fund uses the accrual basis of accounting.

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 26 of this report.

**REQUIRED SUPPLEMENTARY INFORMATION**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information (RSI) concerning the District's budget and actual on a budgetary basis. The RSI can be found on pages 39 through 42 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

This is the first year that a comparative analysis of government-wide data is available and presented under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34.

The District's net assets were \$93 million at the close of the most recent fiscal year. The District does not have business-type activity to report: (see Table 1 below).

**Table 1  
Statement of Net Assets  
June 30, 2003  
(in thousands)**

	<b>Governmental Activities</b>	
	<b>2003</b>	<b>2002</b>
Current and other assets	\$ 137,320	\$ 144,130
Capital assets	120,663	89,979
Total Assets	<u>\$ 257,983</u>	<u>\$ 234,109</u>
Current and other liabilities	7,729	12,030
Long-term liabilities	156,999	178,621
Total Liabilities	<u>\$ 164,728</u>	<u>\$ 190,651</u>
Net Assets:		
Invested in capital assets, net of related debt	(33,487)	(85,131)
Restricted net assets	4,769	2,430
Unrestricted net assets	121,973	126,159
Total Net Assets	<u>\$ 93,255</u>	<u>\$ 43,462</u>
Total Liabilities and Net Assets	<u>\$ 257,983</u>	<u>\$ 234,109</u>

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Capital Assets, Net of Related Debt**

The District's capital assets, net of related debt, are negative \$33 million. As discussed below, the District has not yet recognized infrastructure assets acquired prior to July 1, 2001. However, the District has issued debt in previous years to acquire such infrastructure assets. At June 30, 2003, the District reported Bonds Payable of \$154 million that were related to unrecorded infrastructure assets. Accordingly, this category of net assets is negative and is expected to remain negative until the District recognizes the retroactive infrastructure assets associated with the outstanding debt.

The District began to capitalize newly acquired infrastructure assets during the 2001-02 fiscal year in accordance with GASB 34. However, infrastructure assets acquired prior to July 1, 2001 are not yet reflected in the financial statements. The District is in the process of evaluating its infrastructure assets that were acquired in prior years to ensure that they are reported prior to the year ending June 30, 2006, as required by GASB 34 for governments with annual revenues of \$100 million or more.

**Restricted Net Assets**

The District's restricted net assets at year-end were \$5 million. The asset restriction is imposed by bond covenants that require reserves over the repayment period of the bond amortization schedule.

**Unrestricted Net Assets**

The largest portion of the District's net assets is classified as unrestricted. This amount, \$122 million, may be used to meet the District's ongoing financial requirements.

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Governmental Activities**

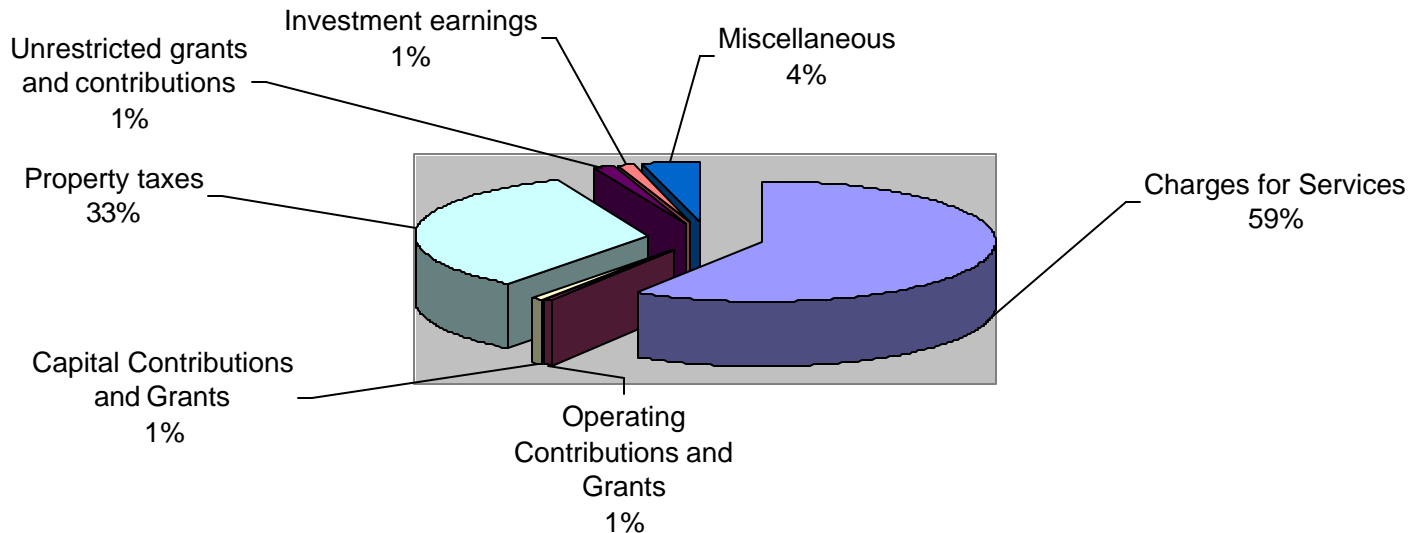
The following table indicates the changes in net assets for the governmental activities (See Table 2 below):

**Table 2  
Statement of Activities  
For the Year Ended June 30, 2003  
(in thousands)**

		<b>Governmental Activities</b>	
		<b>2003</b>	<b>2002</b>
Revenues:			
Program Revenues -			
Charges for Services	\$	123,053	\$ 116,148
Operating Contributions and Grants		1,194	1,817
Capital Contributions and Grants		1,448	204
General Revenues -			
Property taxes		69,518	65,575
Unrestricted grants and contributions		3,042	2,795
Investment earnings		2,183	4,574
Miscellaneous		8,001	1,063
Total revenues	\$	<u>208,439</u>	\$ <u>192,176</u>
Expenses:			
Public protection	\$	148,450	\$ 148,671
Contributions to Los Angeles County		903	1,551
Interest on long-term debt		9,293	8,979
Total expenses	\$	<u>158,646</u>	\$ <u>159,201</u>
Changes in net assets		49,793	32,975
Net assets - July 1		43,462	10,487
Net assets - June 30	\$	<u><u>\$93,255</u></u>	\$ <u><u>43,462</u></u>

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Revenues by Source**



The District's net assets increased by \$50 million during the fiscal year. Following are the major factors that contributed to the net asset changes:

Revenues from governmental activities increased by \$16 million (8%) over the prior year. The most significant changes in revenue were experienced in the following areas:

Charges for services were \$7 million (6%) higher than the previous year. Reimbursement from cities for their jurisdictional share of flood projects accounted for \$6 million of the increase. The remaining \$1 million was from higher benefit assessment collections than the previous year.

Property Taxes were \$4 million (6%) higher than the previous year, which is consistent with the ongoing growth in the real estate market and continued upward trends in Los Angeles County's assessed property values within the District.

Miscellaneous revenues were \$7 million higher than the previous year as a result of recognizing the premium (\$8.5 million) on the revenue refunding bonds the Los Angeles County Public Works Financing Authority issued on January 1, 2003 (the costs of issuance and redemption were offset against the premium for a net increase of \$5 million). The refunding revenue bonds are secured by

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

installment purchase payments, which are unconditional obligations of the District (see Debt Administration on page 15 for details of the revenue refunding bonds). Also, the County's General Fund paid \$2 million to the District for refurbishment costs associated with the office space that is occupied by the County within the District's Headquarters Building.

Investment earnings decreased by \$2 million as a result of the decrease in the yield from the County's Treasury Pool from 3.55% in the previous year to 2.16% in the current year. The District deposits all cash receipts in the County's Treasury Pool and the County manages the day to day investments of the District.

Governmental activity expenses remained at relatively the same level as the previous year.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the District include the General Fund, Debt Service Fund, and the Capital Projects Fund.

At the fiscal year-end, the District's governmental funds reported a combined fund balance of \$120 million, a decrease of \$2 million from the previous years fund balance. The current year-ending fund balance consists of \$93 million in reserves to indicate the extent that the funds have been committed or are otherwise unavailable for spending; \$20 million in designations that have been set aside for specific infrastructure improvements. The remaining \$7 million is unreserved and undesignated and available for spending for flood control purposes.

The decrease in fund balance can be attributed to the District's General Fund, which decreased designations by \$1 million to provide financing for continued work on the Los Angeles County Drainage Area (LACDA) project along with a decrease of \$3 million in reserves needed to liquidate existing contracts and purchase orders. Unreserved and undesignated funds increased by \$2 million to offset the aforementioned decreases.

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

Revenues from the District's governmental funds, primarily the General Fund, were \$202 million, an increase of \$9 million (5%) from the previous year. The benefit assessment revenue (Charges for services) of \$109 million was the major source of revenue for the governmental funds. The benefit assessment revenue increased by \$1 million (1%) over the previous year. The other significant source of revenue for the governmental funds was property taxes, which were \$69 million. Property taxes increased \$3 million (5%) over the previous year. Together, these two revenue sources account for 88 percent of total revenues for all the governmental funds. Expenditures for the governmental funds totaled \$214 million, increasing by \$1 million (.5%) over the previous year. In the current year, expenditures for governmental activities exceeded revenues by \$12 million.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

**Budgetary Summary – Revenues/Financing Sources**

Following is a summary of current year budgetary changes and actual results for the District's General Fund revenues and other financing sources (in thousands) (See Table 3 below):

<b><u>Table 3</u></b>				
<b><u>Category</u></b>	<b>Increase</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
	<b>(Decrease)</b>			
	<b>From Original Budget</b>	<b>Budget Amount</b>	<b>Amount</b>	<b>From Final Budget</b>
Taxes	\$3,125	\$62,550	\$63,157	\$607
Intergovernmental revenues	-	18,130	5,685	(12,445)
Charges for Services	-	110,791	114,786	3,995
All other revenue	-	14,303	11,359	(2,944)
Other sources	-	150	243	93
Miscellaneous revenue	1,700	1,700	1,700	-
Changes in Reserves/Designations	10,000	10,829	12,831	2,002
Total	\$14,825	\$218,453	\$209,761	\$(8,692)

**Changes from Amounts Originally Budgeted**

During the year, increases in budgeted revenues and other financing sources were \$15 million. The increases occurred as follows:

The budget for tax revenues was increased by \$3 million. The District's policy is to increase the budget for certain tax revenues that exceed the amounts originally budgeted. The revised budget action occurs at the end of the fiscal

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

year and is designed to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes.

Miscellaneous revenue increased by \$2 million. As mentioned previously, the County's General Fund paid \$2 million to the District for refurbishment costs associated with the office space that is occupied by the County within the District's Headquarters Building. The financing from the General Fund became available during the current year and the Board of Supervisors for the County authorized the adjustment to the budget.

The reserves and designations were decreased by \$10 million to provide a source of financing for emergency debris basin cleanouts required as a result of the Williams fire in the north eastern region of Los Angeles County.

**Actual Revenues/Financing Source Compared with Final Budget Amounts**

Actual revenues and other financing sources recognized by the District's General Fund were \$9 million less than budget. The variance resulted from the re-budgeting of Federal Emergency Management Agency (FEMA) grant funds for the District Headquarters seismic retrofit project (\$9 million) that was only partially realized (\$1 million). However the remaining amount of \$8 million will be re-budgeted next year when it is anticipated that the construction will commence. Federal Disaster Aid reimbursement for prior declared disasters was also budgeted in the amount of \$4 million but did not materialize.

Unbudgeted reimbursement from the City of Redondo Beach for the Greenflag Drain project of \$3 million and the \$1 million in collections for benefit assessment above the budget accounted for the increase in Charges for Services.

Investment income was less than budgeted by \$3 million as a result of investment yields declining during the year. As mentioned previously, the County's Treasury Pool yields decreased from 3.55% in the previous year to 2.16% in the current year.

Additionally, reserves totaling \$2 million were decreased as a result of the cancellation of existing contracts and purchase orders.

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Budgetary Summary – Expenditures/Other Financing Uses**

Following is a summary of current year budgetary changes and actual results for the District's General Fund expenditures, contributions to Los Angeles County, and contingencies (in thousands) (See Table 4 below):

**Table 4**

<b><u>Category</u></b>	<b>Increase (Decrease) From Original Budget</b>	<b>Final Budget Amount</b>	<b>Actual Amount</b>	<b>Variance From Final Budget</b>
Public Protection	\$11,700	\$223,524	\$206,520	\$(17,004)
Contributions to Los Angeles County	-	2,052	903	(1,149)
Contingencies	3,125	3,125	-	(3,125)
Total	\$14,825	\$228,701	\$207,423	\$(21,278)

**Changes from Amounts Originally Budgeted**

During the year, increases in the District's General Fund appropriations and contingencies were \$15 million. The increases occurred as follows:

After the original budget was established, appropriations for public protection were increased by \$12 million. The increase consisted of a \$10 million appropriation increase for emergency debris basin cleanouts required as a result of the Williams fire in the north eastern region of Los Angeles County, as described previously; a \$2 million increase to provide appropriation to pay for refurbishment costs associated with the office space that is occupied by the County within the District's Headquarters Building, also as described previously.

Contingencies increased from the original budget by \$3 million as a result of actual tax revenues exceeding the original budget. The District's policy is to increase the budget for certain tax revenues that exceed the amounts originally budgeted. As indicated previously, the revised budget action occurs at the end of the fiscal year and is designed to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes.

**Actual Expenditures/Other Financing Uses Compared with Final Budget Amount**

Actual expenditures and other financing uses of the District's General fund were \$21 million lower than budget. The variance in the public protection category result from changes in the District's project schedule that occur as a result of

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

various circumstances that delay the award of a project for construction. Project delays are anticipated and an inventory of projects is kept to replace projects that remain in the planning stage or are delayed. The majority of the variance in public protection resulted from the delay in the construction phase of the District's Headquarters' seismic retrofit project (\$17 million).

Contributions to Los Angeles County were \$1 million less than budgeted. The variance is a result of the contribution actually needed from the District to the County for equipment purchases. The District provides a residual equity transfer annually to the County to finance new equipment purchases that are owned by the County and utilized by the District for flood control activities.

Contingency appropriations of \$3 million were not utilized. The amount budgeted in this account was not eligible to be spent. The contingency appropriation was established to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes in excess of the original budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the June 30, 2003, the District had \$121 million invested in capital assets including land, buildings, infrastructure and equipment (See Table 5 below). Infrastructure assets have also been recognized for activity that occurred during the current year. The District has deferred recognition of infrastructure assets acquired prior to July 1, 2001.

The District's capital assets increased \$31 million (34%) from the prior fiscal year as shown in table 5 below (in thousands).

**Table 5  
Changes in Capital Assets, Net of Depreciation**

	<b>Current Year</b>	<b>Prior Year</b>	<b>Increase (Decrease)</b>
Land	\$4,438	\$4,053	\$385
Buildings and Improvements (B&I)	45,908	46,760	(852)
Infrastructure	38,875	6,832	32,043
Equipment	116	148	(32)
Construction-in-Progress - B&I	2,314	877	1,437
Construction-in-Progress - Infrastructure	29,012	31,309	(2,297)
<b>Total</b>	<b>\$120,663</b>	<b>\$89,979</b>	<b>\$30,684</b>

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

Current year infrastructure costs were capitalized for projects that remained in progress at the end of the year. The value of Construction-in-Progress at June 30, 2003 was \$29 million and the value will remain classified within the Construction-in-Progress category until the assets are completed.

This year's infrastructure asset additions of \$32 million were as follows (assets addition values are shown before depreciation is deducted):

Flood Control Barrier Project

- Dominquez Gap Barrier (\$20 million)

Dam Improvements

- Live Oak Dam Sub-drains (\$142,000)
- San Gabriel, San Dimas, & Big Dalton Dams Trash Rack Modifications (\$180,000)
- Sierra Madre Dam Bridge Replacement (\$517,000)

Debris Basins

- Fieldbrook Debris Basin Enlargement (\$850,000)
- Lincoln Debris Basin Enlargement (\$961,000)
- Limekiln Creek – Invert Access Ramp (\$88,000)

Channel Improvements

- Bull Creek @ J.F. Kennedy High School (\$1.937 million)
- Charter Oak Wash – Invert Access Ramp (\$132,000)
- Los Angeles River Repair - Desoto Ave. (\$1.090 million)
- Monrovia – Project 554 (\$146,000)
- Newhall Creek – Invert Access Ramp @ 15th Street (\$72,000)
- Sorensen Drain – Invert Access Ramp (\$208,000)
- Sycamore Channel Repair (\$185,000)

Storm Drain Improvements

- 110th Street Drain (\$409,000)
- Belton Drain (\$364,000)
- Busby Drain (\$2.5 million)
- Covina Park and Juanita Drains (\$728,000)
- Live Oak Springs Canyon Drain, Unit 2 (\$2.120 million)
- Valman Drain (\$594,000)

Sediment Placement Sites

- Los Angeles River – Invert Access Ramp @ Nichols (\$143,000)

Other various infrastructure improvements (\$1.153 million)

**COUNTY OF LOS ANGELES  
FLOOD CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Debt Administration**

At June 30, 2003, the District had \$154 million in long-term debt. The District's long-term debt consisted of \$11 million in voter approved general obligation bonds and \$143 million in revenue bonds. The District's long-term debt decreased by \$21 million (12%) in the current year as a result of scheduled debt service payments.

On January 30, 2003, the Los Angeles County Public Works Financing Authority issued \$143,195,000 in refunding revenue bonds, maturing on various dates between 2004 and 2017. These bonds, with an average interest rate of 3.34%, were issued to refund the outstanding principal amount of \$147,565,000 of capital construction and refunding bonds issued in 1993 at an interest rate of 5%. The refunding revenue bonds are secured by installment purchase payments, which are unconditional obligations of the District. The refunding revenue bonds were issued at a premium of \$8,513,310.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Management Branch at the Department of Public Works, 900 South Fremont Avenue, 7<sup>th</sup> Floor, Alhambra, California 91803-1331.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2003 (IN THOUSANDS)**

		<b>GOVERNMENTAL ACTIVITIES</b>
<b><u>ASSETS</u></b>		
Pooled cash and investments (Note 3)	\$	112,170
Advances to other funds		6,814
Other investments		120
Taxes receivable		16,170
Interest receivable		297
Other receivables		1,749
Capital assets (Note 4):		
Land and construction in progress	\$	35,764
Other capital assets, net of depreciation		<u>84,899</u>
Total capital assets		<u>120,663</u>
<b>TOTAL ASSETS</b>		<b><u>257,983</u></b>
<b><u>LIABILITIES</u></b>		
Accounts payable		3,722
Accrued interest payable		2,329
Deferred revenue		1,678
Long-term liabilities (Note 5)		
Due within one year		19,028
Due in more than one year		<u>137,971</u>
<b>TOTAL LIABILITIES</b>		<b><u>164,728</u></b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt		(33,487)
Restricted net assets		
Capital projects		220
Debt service		4,549
Unrestricted		<u>121,973</u>
<b>TOTAL NET ASSETS</b>	\$	<b><u>93,255</u></b>

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)**

		<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Total Governmental Activities</u>
<b>Governmental activities:</b>					
Public protection	\$ 148,450	123,053	1,194	1,448	\$ (22,755)
Contributions to Los Angeles County	903				(903)
Interest on long-term debt	9,293				(9,293)
<b>Totals</b>	<b>\$ 158,646</b>	<b>123,053</b>	<b>1,194</b>	<b>1,448</b>	<b>(32,951)</b>
<b>General Revenues:</b>					
Property Taxes					69,518
Grants and contributions not restricted to special programs					3,042
Investment earnings					2,183
Miscellaneous					8,001
<b>Total General Revenue</b>					<b>82,744</b>
<b>Change in Net Assets</b>					<b>49,793</b>
<b>Net Assets, July 1, 2002</b>					<b>43,462</b>
<b>Net Assets, June 30, 2003</b>					<b>\$ 93,255</b>

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003 (IN THOUSANDS)**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS:</u></b>				
Pooled cash and investments (Note 3)	\$ 107,679	4,391	100	\$ 112,170
Advances to other funds	6,814			6,814
Other investments (Note 3)			120	120
Taxes receivable	6,414	949		7,363
Interest receivable	286	11		297
Assessments receivable	8,807			8,807
Other receivables	1,749			1,749
<b>TOTAL ASSETS</b>	<b>\$ 131,749</b>	<b>5,351</b>	<b>220</b>	<b>\$ 137,320</b>

Continued...

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003 (IN THOUSANDS)**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>LIABILITIES:</u></b>				
Accounts payable	\$ 3,722			\$ 3,722
Deposits payable				
Deferred revenue	12,979	697		13,676
	<hr/>			
<b>TOTAL LIABILITIES</b>	<b>16,701</b>	<b>697</b>		<b>17,398</b>
	<hr/>			
<b><u>FUND BALANCES:</u></b>				
Reserved for:				
Encumbrances	85,409			85,409
Other	3,008			3,008
Debt Service		4,654		4,654
Unreserved:				
Designated	19,478			19,478
Undesignated	7,153		220	7,373
	<hr/>			
<b>TOTAL FUND BALANCES</b>	<b>115,048</b>	<b>4,654</b>	<b>220</b>	<b>119,922</b>
	<hr/>			
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 131,749</b>	<b>5,351</b>	<b>220</b>	<b>\$ 137,320</b>
	<hr/>			

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2003 (IN THOUSANDS)**

Fund balance of total governmental funds (page 19)	\$	119,922
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.

Land	\$	4,438	
Construction-in-progress		31,326	
Buildings and improvements - net		45,908	
Equipment – net		116	
Infrastructure – net		38,875	120,663

Other long-term assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds:

Deferred revenue		11,998	
------------------	--	--------	--

Accrued interest payable is not recognized in governmental Funds		(2,329)	
--	--	---------	--

The following long-term liabilities, are not due and payable in the current period therefore are not reported in the funds.

Bonds and notes payable	(154,150)		
Litigation/self insurance	(2,849)	(156,999)	

Net assets of governmental activities (page 16)	\$	93,255
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The notes to the basic financial statements are an integral part of this statement

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>REVENUES:</u></b>				
Taxes	\$ 63,102	6,403		\$ 69,505
Licenses and permits	535			535
Fines, forfeitures and penalties	1,667	14		1,681
Interest	2,079	81	23	2,183
Rents and royalties	6,133			6,133
Intergovernmental revenues:				
Federal	2,347			2,347
State	1,106			1,106
Other	2,232			2,232
Charges for services	115,003			115,003
Miscellaneous	855			855
<b>TOTAL REVENUES</b>	<b>195,059</b>	<b>6,498</b>	<b>23</b>	<b>201,580</b>
<b><u>EXPENDITURES:</u></b>				
Current-Public protection:				
Services and supplies	171,922			171,922
Other charges	4,579	2		4,581
Debt Service:				
Principal		24,026		24,026
Interest		9,585		9,585
Capital Outlay	3,535			3,535
<b>TOTAL EXPENDITURES</b>	<b>180,036</b>	<b>33,613</b>		<b>213,649</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>15,023</b>	<b>(27,115)</b>	<b>23</b>	<b>(12,069)</b>

Continued ...

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of capital assets	\$ 243			\$ 243
Transfers in		18,402	80	18,482
Transfers out	(18,402)	(80)		(18,482)
Contributions to Los Angeles County (Note 2)	(903)			(903)
Proceeds of refunding bonds (Note 5)		143,195		143,195
Payment to refunded bonds escrow agent (Note 5)		(143,195)		(143,195)
Bond premium proceeds		8,513		8,513
Miscellaneous	1,700			1,700
<b>OTHER FINANCING SOURCES (USES) - NET</b>	<u>(17,362)</u>	<u>26,835</u>	<u>80</u>	<u>9,553</u>
 <b>NET CHANGE IN FUND BALANCES</b>	 (2,339)	 (280)	 103	 (2,516)
 <b>FUND BALANCE, JULY 1, 2002</b>	 <u>117,387</u>	 <u>4,934</u>	 <u>117</u>	 <u>122,438</u>
  <b>FUND BALANCE, JUNE 30, 2003</b>	  <u>\$ 115,048</u>	  <u>4,654</u>	  <u>220</u>	  <u>\$ 119,922</u>

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)**

Net change in fund balances - total governmental funds (page 22)	\$	(2,516)
--	----	---------

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Governmental funds report capital outlay as expenditures.

However, in the Statement of Activities, the cost of those  
assets is allocated over their estimated useful lives and  
reported as depreciation expense:

Expenditures for general capital assets, infrastructure and other related capital asset adjustments	\$	34,599
--	----	--------

Less - current year depreciation expense	<u>(3,672)</u>	30,927
--	----------------	--------

In the statement of activities, only the gain on the sale of  
capital assets is reported, whereas in the governmental  
funds, the proceeds from the sale increase financial  
resources. Thus the change in net assets differs from  
the change in fund balance.

(243)

Revenue timing differences result in less revenue in  
government-wide statements

(3,355)

Repayment of bond principal is an expenditure in the  
government funds but the repayment reduced long-term  
liabilities in the Statement of Net Assets

24,026

Accrued interest for bonds payable. This is the net change in  
accrued interest for the current period.

292

Some expenses reported in the accompanying statement of  
activities do not require (or provide) the use of current  
financial resources and, therefore, are not reported as  
expenditures in governmental funds.

Change in litigation/self insurance

662

Change in net assets of governmental activities (page 17)

\$ 49,793

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2003 (IN THOUSANDS)**

	<u><b>AGENCY FUNDS</b></u>
<b>ASSETS</b>	
Pooled cash and investments (Note 3)	\$ <u>3,175</u>
<b>TOTAL ASSETS</b>	<u><u>3,175</u></u>
<b>LIABILITIES</b>	
Deposits payable	<u>3,175</u>
<b>TOTAL LIABILITIES</b>	\$ <u><u>3,175</u></u>

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)**

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>
<b><u>TOTAL AGENCY FUNDS</u></b>				
<b>ASSETS</b>				
Pooled cash and investments (Note 3)	\$ 3,918	739	1,482	\$ 3,175
<b>TOTAL ASSETS</b>	\$ <u>3,918</u>	<u>739</u>	<u>1,482</u>	\$ <u>3,175</u>
<b>LIABILITIES</b>				
Deposits payable	\$ 3,918	765	1,508	\$ 3,175
<b>TOTAL LIABILITIES</b>	\$ <u>3,918</u>	<u>765</u>	<u>1,508</u>	\$ <u>3,175</u>

The notes to the basic financial statements are an integral part of this statement.

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Los Angeles County Flood Control District ("District") is empowered to carry out the objectives of the Los Angeles County Flood Control Act. The objectives are to provide for the control and conservation of flood, storm and other wastewater and to protect from damage from such flood or storm waters, the harbors, waterways, public highways and property within the District. These powers are exercised through the County of Los Angeles ("County") Board of Supervisors, which acts as the governing body of the District. The duties of the Board include approving the District's budget, determining the District's tax rates, approving contracts, and determining when to issue bonds authorized by the voters of the District.

Reporting Entity

District management has determined that the Public Works Financing Authority ("PWFA") should be included in the basic financial statements of the District as a blended component unit. The PWFA is dependent upon the District for funding. The PWFA is a public agency organized pursuant to a Joint Exercise of Powers Agreement between the District and the County dated May 18, 1993. The PWFA is empowered to finance District capital assets through the issuance of bonds.

Blended component units are those that, because of the closeness of the relationship with the primary government, should be blended in the basic financial statements as though they are part of the primary government. The District does not have any component units that should be discretely presented. Additional financial information for the PWFA may be obtained from the Department of Public Works at 900 South Fremont Avenue, Alhambra, California, 91803.

The District is included as a blended component unit in the County financial reporting entity and is included in the County's comprehensive annual financial report for the year ended June 30, 2003. The financial resources and operations of the District are accounted for in the fund types as discussed below.

Basis of Accounting and Measurement Focus

The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Financial reporting is based upon all GASB pronouncements.

Government-wide Financial Statements

Government-wide financial statements display information about the District as a whole. The statement of net assets and statement of activities display information about the District, except for fiduciary activities.

Basis of Accounting

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the basic financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financial source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Net assets are classified into the following three categories, 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Net assets are reported as restricted when their use has been constrained by externally imposed conditions. Such conditions include limitations imposed by creditors (such as through debt covenants), grantors or laws or regulations of other governments. Net asset restrictions are also recognized when imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted net assets are available, restricted resources are used first and then unrestricted resources are used to the extent necessary.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are presented after the government-wide financial statements. These statements display information about major funds individually in the aggregate for governmental funds.

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented.

The District reports the following major governmental funds:

- **General Fund**  
The General Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another fund.
- **Debt Service Funds**  
Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- **Capital Projects Funds**  
Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of flood control structures financed by general long-term debt.

The following Fiduciary Fund is also reported:

- **Agency Fund**  
The Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental entities or other funds.

**Basis of Accounting**

In the fund financial statements, governmental funds are presented using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance operations during the year. Secured and unsecured property taxes and benefit assessments estimated to be collectable in the future years are recorded as receivables and deferred revenue.

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

The accrual of property tax revenues is generally limited to the extent that collection occurs within 60 days after the balance sheet date.

Interest income and charges for current services are accrued when earned and determined available. Changes in the fair value of investments are recognized as revenues at the end of each year. Federal and State grants are recorded as revenue when determined to be available, entitlement occurs, and related eligible expenditures are incurred. Revenues that are not considered susceptible to accrual include licenses, permits, and miscellaneous revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt, which is recognized when payment is due.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Non-current portions of long-term receivables due from governmental funds are reported on the District's balance sheet and are offset by deferred revenue. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Government fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

As a result of their spending measurement focus, expenditure recognition for governmental fund types excludes accounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed at 100% of full cash or market value (with some exceptions). Pursuant to such legislation, the Board of Supervisors levies a property tax to support general operations of the various

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

jurisdictions (ad valorem tax) which is limited to one percent (1%) of full cash value of property and distributes the collections in accordance with statutory formulae.

The District receives an apportionment from the property tax levy which is a major source of District revenue.

Property taxes are levied on both real and personal property. Secured property taxes are levied during September of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. The proceeds are used to pay the delinquent amounts due, and any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1 and become delinquent, if unpaid, on August 31. Unsecured property tax receivables are reduced by an amount estimated to be uncollectible, which is based on a five-year historical average collection percentage.

Benefit Assessments

The District, as authorized by the Government Code, levies an assessment on each parcel of real property within the District, except on property owned by Federal, State or local government agencies. The assessment, as approved by the Board of Supervisors, is levied in proportion to benefits received, determined on the basis of the proportionate storm water runoff from each parcel. The purpose of benefit assessments is to cover the cost of providing flood control services within the District not offset by other available revenues.

Deposits and Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the accompanying financial statements reflect the fair value of investments. Changes in fair value that occur during a fiscal year are recognized as investment income reported for the fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

All cash and investment balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. Each

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

fund's share in the pool is displayed in the accompanying financial statements as pooled cash and investments. Investment income earned by the pooled investments is allocated to various funds based on the fund's average cash and investment balance, as provided by California Government Code Section 53647.

The fair value of pooled investments is determined annually and based on current market prices. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals rather than market value.

Capital Assets

Capital Assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital outlay is recorded as expenditures of the General and Capital Project Funds and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met.

The District's capitalization thresholds are \$5,000 for equipment, \$100,000 for buildings and improvements and \$100,000 for infrastructure assets. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 to 50 years
Equipment	2 to 35 years
Infrastructure	2 to 50 years

Pursuant to GASB Statement No. 34, an extended period of deferral (fiscal year beginning July 1, 2005) is available before the requirement to record and depreciate infrastructure assets acquired prior to July 1, 2001 is effective. As a result, the governmental activities column in the accompanying government-wide financial statements as of June 30, 2003 does not reflect infrastructure assets

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

completed prior to July 1, 2001. The accompanying government-wide financial statements include infrastructure assets that were capitalized as of July 1, 2001. Infrastructure assets that are functional are currently being depreciated. A schedule of capital assets is presented in Note 4.

2. TRANSACTIONS WITH THE COUNTY

Pursuant to an agreement between the District and the County, the County is responsible for providing all necessary employees to the District for purposes of performing all District functions. Costs related to these employees are billed to the District based upon actual time spent providing District services. Supply pool and equipment costs are also billed based upon actual usage by the District. Accordingly, the District has no supplies inventory or employee-related liabilities (e.g., pension, compensated absences, and workers' compensation). For the year ended June 30, 2003, the County's billings to the District's General Fund approximated \$84,550,000. Costs associated with shared equipment that are funded through DPW's internal service fund are recorded in the District's financial statements as "Contribution to the County of Los Angeles." For the year ended June 30, 2003, "Contribution to the County of Los Angeles" from the District's general fund is \$903,000.

During the course of its operations, the District has numerous transactions with the other funds of the County in order to finance operations, provide services, purchase assets and apportion property taxes. To the extent that certain transactions between the District and these funds had not been paid or received as of June 30, 2003, the net balances of interfund amounts receivable or payable have been converted to cash for financial statement presentation.

On April 16, 1990, the District entered into a cost-sharing agreement with the County relative to the District's Headquarters Building (the "Building"). The agreement provides for the County to make rental payments to the District in exchange for its occupancy of the Building. Furthermore, the County has agreed to pay for its proportionate share of the Building's operating costs. For the year ended June 30, 2003, County rental payments to the District totaled \$4,683,000.

The District issued certificates of participation in 1987 to acquire the Building. These certificates of participation were defeased and replaced with refunding bonds in August 1993. The 1993 refunding bonds were refunded in January 2003 (see Note 5). The District's management has no intention of selling the Building. However, in the event the Building were to be sold, the proceeds of the sale in excess of any outstanding indebtedness would be shared by the District and the County in proportion to each entity's share of the Building's cost.

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Notes to the Basic Financial Statements  
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3. CASH AND INVESTMENTS

Pooled Cash and Investments

As provided for by the Government Code, certain cash balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. As of June 30, 2003, the District's share of the total pooled cash and investments, included in the Statement of Net Assets and Balance Sheet under "pooled cash and investments", was \$112,170,000, which represents approximately 0.80% of the total pool. The "pooled cash and investments" reported on the Statement of Fiduciary Net Assets was \$3,175,000.

Interest earned on pooled investments is deposited monthly based upon the average daily deposit balance during the allocation period. Investment gains and losses are proportionately shared by the entities participating in the pool, as an increase or reduction in interest earnings. The net unrealized gain on the District's proportionate share of investments held in the Treasurer's Pool was \$197,000 as of June 30, 2003. Statutes authorize the pool to invest in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements and reverse repurchase agreements.

The investments are managed by the County Treasurer, who reports on a monthly basis to the Board of Supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative.

GASB Statement No. 3 exempts participating entities from classifying their pool investments in categories of credit risk. Credit risk information for the entire County Treasurer Pool is presented in Note 4 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003.

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Notes to the Basic Financial Statements  
June 30, 2003

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003 is as follows: (in thousands):

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>
<b><u>Governmental Activities</u></b>				
<b>Capital assets, not depreciated:</b>				
Land	\$ 4,053	\$ 607	\$ (222)	\$ 4,438
Construction in progress-buildings and improvements	877	2,007	(570)	2,314
Construction in progress-infrastructure	31,309	15,461	(17,758)	29,012
<b>Subtotal</b>	<b>36,239</b>	<b>18,075</b>	<b>(18,550)</b>	<b>35,764</b>
<b>Capital assets, depreciated:</b>				
Buildings and improvements	64,629	296		64,925
Equipment	1,594	7	(13)	1,588
Infrastructure	7,577	34,519		42,096
<b>Subtotal</b>	<b>73,800</b>	<b>34,822</b>	<b>(13)</b>	<b>108,609</b>
<b>Less accumulated depreciation:</b>				
Buildings and improvements	17,869	1,148		19,017
Equipment	1,446	48	(22)	1,472
Infrastructure	745	2476		3,221
<b>Subtotal</b>	<b>20,060</b>	<b>3,672</b>	<b>(22)</b>	<b>23,710</b>
<b>Total capital assets, being depreciated, net</b>	<b>53,740</b>	<b>31,150</b>	<b>9</b>	<b>84,899</b>
<b>Total capital assets, net</b>	<b>\$ 89,979</b>	<b>\$ 49,225</b>	<b>\$ (18,541)</b>	<b>\$ 120,663</b>

Note: The balance as of July 1, 2002 was adjusted to reclassify some infrastructure assets reported as completed in the prior year as construction in progress.

**Depreciation Expense**

Depreciation expense was charged to functions/programs of the Flood Control District as follows (in thousands):

Governmental activities:

Public protection	\$ 3,672
<b>Total depreciation expense, governmental activities</b>	<b>\$ 3,672</b>

Los Angeles County Flood Control District  
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June 30, 2003

5. LONG-TERM OBLIGATIONS

Long-term obligations of the District consist of general obligation bonds, capital construction and refunding bonds, and other liabilities.

General Obligation Bonds

Pursuant to the Los Angeles County Flood Control Act and voter approval, the District is authorized to issue bonds. The proceeds from the sale of bonds were used for the construction of storm drain systems. Revenue for retirement of such bonds is provided from ad valorem taxes on property within the District. The District's general obligation bonds outstanding at June 30, 2003, are summarized as follows (in thousands):

\$252,000 authorized 1970, \$252,000 issued; due in annual installments through 2008; interest at 4.0% to 8.2%	\$10,110
\$60,000 refunding bonds authorized 1993, \$50,290 issued; due in annual installments through 2006; interest at 2.6% to 5.15%	845
	<u>\$10,955</u>

Aggregate debt service requirements to maturity of general obligation bonds as of June 30, 2003, are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 4,800	\$ 485
2005	3,890	269
2006	1,185	103
2007	710	43
2008	370	9
Total	<u>\$10,955</u>	<u>\$ 909</u>

Capital Construction and Refunding Bonds

On January 30, 2003, the Los Angeles County Public Works Financing Authority issued \$143,195,000 in refunding revenue bonds, maturing on various dates between 2004 and 2017. These bonds, with an average interest rate of 3.34%, were issued to refund the outstanding principal amount of \$147,565,000 of capital construction and refunding bonds issued in 1993 at an interest rate of 5%.

U.S. Government securities were purchased and deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the

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June 30, 2003

refunded bonds. Accordingly, the refunded bonds were considered to be defeased and the liabilities for those bonds were removed from the Government-wide Statement of Net Assets – governmental activities. The refunded bonds were fully redeemed by the escrow agent prior to June 30, 2003. Specific disclosures related to the refunding issue are as follows (in thousands):

Proceeds of refunding bonds issued	\$143,195
Bond premium	<u>8,513</u>
Deposit to escrow	<u>\$151,708</u>
Future years' aggregate debt service payment reduction	\$ 11,780
Present value savings (economic gain)	\$ 9,295

Aggregate maturity of capital construction and refunding bonds as of June 30, 2003, are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 11,405	\$ 6,182
2005	12,175	5,407
2006	12,475	5,102
2007	12,860	4,728
2008	13,245	4,342
2009-2013	75,290	12,636
2014-2017	<u>5,745</u>	<u>606</u>
Total	<u>\$143,195</u>	<u>\$39,003</u>

Changes in Long-term Liabilities

The following is a summary of long-term liabilities for the fiscal year ended June 30, 2003 (in thousands):

	<u>Balance July 1, 2002</u>	<u>Additions (Deletions)</u>	<u>Maturities</u>	<u>Balance June 30, 2003</u>	<u>Due Within One Year</u>
Bonds Payable	\$175,110	(\$4,370)	(\$16,590)	\$154,150	\$16,205
Liabilities (note 6)	<u>3,511</u>	<u>3,578</u>	<u>(4,240)</u>	<u>2,849</u>	<u>2,823</u>
Total	<u>\$178,621</u>	<u>(\$ 792)</u>	<u>(\$20,830)</u>	<u>\$156,999</u>	<u>\$19,028</u>

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
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6. RISK MANAGEMENT

The District has programs for public liability and property damage. There have been no settlements related to these programs that exceeded insurance coverage during 2002-03. The District retains the risk for all loss exposure in excess of insurance coverage. Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The District utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities.

As of June 30, 2003, the District's best estimate of these probable judgment liabilities is \$2,849,000. Changes in the reported liability since June 30, 2001 resulted from the following (in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End
2001-02	\$ 851	\$8,015	(\$5,355)	\$3,511
2002-03	\$3,511	\$3,578	(\$4,240)	\$2,849

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$1,000,000 are possible of creating an adverse judgment against the District. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

7. PROPOSITION 218

In November 1996, the voters approved the "Right to Vote on Taxes Act" (Proposition 218) which limits the District's ability to levy additional property related benefit assessments without owner approval. In September 1998, the Board of Supervisors approved ordinance amendments to bring the County's general purpose taxes into conformance with proposition 218. The District's existing benefit assessments are exempt under Proposition 218. However, any future increases to property related benefit assessments may be subject to property owner approval.

8. SUBSEQUENT EVENTS

State Water Resources Control Board

On September 3, 2003, the Board authorized the settlement of a lawsuit on behalf of the District against the State Water Resources Control Board and the Regional Water Quality

Los Angeles County Flood Control District  
Notes to the Basic Financial Statements  
June 30, 2003

8. SUBSEQUENT EVENTS-Continued

Control Board that challenged the adoption of total maximum daily loads (TMDLs) which set a discharge limit of zero trash in the Los Angeles River and Ballona Creek and Wetland. However, that settlement was effectively made void as a result of a tentative judicial order that required the State to re-draft the TMDL discharge limit requirements. The TMDL requirements cited in the lawsuit for Los Angeles River and Ballona Creek and Wetland are only a small portion (of the 92 TMDL requirements) with which the District will soon need to comply. The District is currently taking measures to comply with the forthcoming TMDL requirements. The overall financial impact of these programs on the District will be significant.

San Gabriel Dam and Reservoir Post-Fire Sediment Removal

On October 21, 2003, the Board approved a project and adopted the plans to address the sediment removal related to 2002 fire damage in the Angeles National Forest. The estimated cost of the project is between \$40,000,000 and \$60,000,000 over a period of five years.

State Budget

The State is confronted with a significant budget deficit for fiscal year 2003-04. A new State Governor assumed office on November 17, 2003. There are various options that are under consideration to manage the budget deficit, including a proposal to issue State deficit bonds in conjunction with spending reductions.

As of June 30, 2003, the District received \$1,000,000 in State revenue for fiscal year 2002-03. At this time, the impact of further State budget curtailments and their impact to the District have not been determined.

REQUIRED SUPPLEMENTARY INFORMATION  
LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
GENERAL FUND AND DEBT SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)

	GENERAL FUND				DEBT SERVICE FUNDS			
	ORIGINAL	FINAL	ACTUAL ON	VARIANCE	ORIGINAL	FINAL	ACTUAL ON	VARIANCE
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BUDGETARY</u>	<u>FROM</u> <u>FINAL</u> <u>BUDGET</u> <u>OVER</u> <u>(UNDER)</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>BUDGETARY</u>	<u>FROM</u> <u>FINAL</u> <u>BUDGET</u> <u>OVER</u> <u>(UNDER)</u>
			<u>BASIS</u>				<u>BASIS</u>	
<b><u>REVENUES:</u></b>								
Taxes	\$ 59,425	62,550	63,157	607	4,998	4,998	6,368	1,370
Licenses and permits	500	500	535	35				
Fines, forfeitures and penalties	1,303	1,303	1,667	364	64	64	15	(49)
Interest/Investment income	5,000	5,000	2,169	(2,831)	177	177	85	(92)
Rents and royalties	6,640	6,640	6,133	(507)				
Intergovernmental revenues:								
Federal	14,790	14,790	2,347	(12,443)				
State	1,800	1,800	1,106	(694)				
Other	1,540	1,540	2,232	692				
Charges for services	110,791	110,791	114,786	3,995				
Miscellaneous	860	860	855	(5)				
<b>TOTAL REVENUES</b>	<b>202,649</b>	<b>205,774</b>	<b>194,987</b>	<b>(10,787)</b>	<b>5,239</b>	<b>5,239</b>	<b>6,468</b>	<b>1,229</b>
<b><u>EXPENDITURES:</u></b>								
Current - public protection:								
Services and supplies	169,336	176,920	176,696	(224)				
Other charges	20,968	23,268	22,981	(287)				
Capital assets	21,520	23,336	6,843	(16,493)				
Debt Service:								
Principal					6,020	6,020	6,020	
Interest					760	760	759	(1)
<b>TOTAL EXPENDITURES</b>	<b>211,824</b>	<b>223,524</b>	<b>206,520</b>	<b>(17,004)</b>	<b>6,780</b>	<b>6,780</b>	<b>6,779</b>	<b>(1)</b>
<b>OVER EXPENDITURES</b>	<b>(9,175)</b>	<b>(17,750)</b>	<b>(11,533)</b>	<b>6,217</b>	<b>(1,541)</b>	<b>(1,541)</b>	<b>(311)</b>	<b>1,230</b>

See accompanying notes to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION  
LOS ANGELES COUNTY FLOOD CONTROL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
GENERAL FUND AND DEBT SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)

	GENERAL FUND				DEBT SERVICE FUNDS			
	ORIGINAL	FINAL	ACTUAL ON	VARIANCE	ORIGINAL	FINAL	ACTUAL ON	VARIANCE
	<u>BUDGET</u>	<u>BUDGET</u>	BUDGETARY	FROM FINAL BUDGET OVER (UNDER)	<u>BUDGET</u>	<u>BUDGET</u>	BUDGETARY	FROM FINAL BUDGET OVER (UNDER)
			<u>BASIS</u>				<u>BASIS</u>	
OTHER FINANCING SOURCES (USES):								
Sales of fixed assets	150	150	243	93				
Transfers out	(2,052)	(2,052)	(903)	1,149				
Appropriation for contingencies		(3,125)		3,125	(209)	(209)		209
Changes in reserves and designations	829	10,829	12,831	2,002	399	399	399	
Miscellaneous		1,700	1,700					
OTHER FINANCING SOURCES (USES) - NET	(1,073)	7,502	13,871	6,369	190	190	399	209
NET CHANGE IN FUND BALANCE	(10,248)	(10,248)	2,338	12,586	(1,351)	(1,351)	88	1,439
FUND BALANCE, JULY 1, 2002	10,248	10,248	10,248		1,351	1,351	1,351	
FUND BALANCE, JUNE 30, 2003	\$		12,586	12,586			1,439	1,439

See accompanying notes to required supplementary information.

Los Angeles County Flood Control District  
Notes to Required Supplementary Information  
June 30, 2003

1. BUDGETARY DATA

In accordance with the provisions of Section 29000-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund and the Debt Service Fund on a basis of accounting, which is different from generally accepted accounting principles ("GAAP"). Note 2 indicates specific differences between the two bases of accounting as of June 30, 2003. The major areas of difference are as follows:

- For budgetary purposes, designations are recorded as other financing uses at the time they are established. Although designations are not legal commitments, the District recognizes them as uses of budgetary fund balance. Designations that are subsequently cancelled or otherwise made available for appropriation are recorded as other financing sources.
- For budgetary purposes, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or purchase agreements are entered into. Under the GAAP basis, these obligations are only recognized when goods are received or services are rendered. Other reserves are also recognized as other financing uses to indicate that certain assets are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.
- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.
- Investment income includes the effect of changes in the fair value of investment. For budgetary purposes, investment income is recognized prior to the effect of such fair value changes.

Expenditures are controlled at the object level for all District budgets, except for fixed asset expenditures, which are controlled at the sub-object level. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2003.

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General Fund and Capital Projects Fund. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately expected to result if

Los Angeles County Flood Control District  
Notes to Required Supplementary Information  
June 30, 2003

the unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balances for subsequent year expenditures (see Note 2).

Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act.

## 2. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on Budgetary Basis for the governmental funds has been prepared on the budgetary basis of accounting which is different from GAAP.

The amounts presented for the governmental fund statements are based on the modified accrual basis of accounting and differ from the amounts presented on a budgetary basis of accounting. The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2003 (in thousands):

	General Fund	Debt Service Fund
	<hr/>	<hr/>
Fund Balance – Budgetary Basis	\$12,586	\$1,439
Reserves and Designations	<hr/> 107,895	<hr/> 3,247
Subtotal	120,481	4,686
Adjustments:		
Change in Accounts Payable Accruals	(1,026)	
Change in Revenue Accruals	<hr/> (4,407)	<hr/> (32)
Fund Balance – GAAP Basis	<hr/> <u>\$115,048</u>	<hr/> <u>\$4,654</u>